

# Have you considered Emerging Market Equities?



## Emerging Markets Outlook

**Aquico Wen**  
Chief Investment Officer

**We retain our positive outlook** for emerging markets (EM). We expect the background for risky assets to improve significantly in the remainder of the year, as economic momentum rebounds and worries about Peripheral Europe are set aside, at least temporarily.

**We expect further evidence** will emerge that Chinese policy tightening is succeeding in cooling down the economy without precipitating a hard landing. Similarly, fears of runaway inflation across EM should subside as headline inflation rolls over on the back of stabilizing food prices, thus quelling concerns of more aggressive policy tightening in months to come.

**Our portfolio holdings** reflect our macro outlook of a rebound in growth momentum towards the second half of 2011. On a sector basis, we remain overweight some cyclical sectors like Energy and IT but we have increased our underweight in materials on valuation concerns in some stocks. We added to domestic consumer staples names in Russia, China and Brazil, supported by strong underlying structural trends. In India, we used the opportunity provided by market underperformance to increase our exposure to domestic growth story by adding to the consumer and infrastructure spaces. We reduced our position in South African materials.

**From a country perspective**, Russia and China remain our largest overweights, followed by Brazil & India. In Russia we have increased our exposure to domestically driven sectors, adding stocks in Consumer and Technology sectors and trimming our direct exposure to Energy stocks. Similarly in China we continued to add to Consumer exposure at the cost of Industrial and Materials sectors.

### Did you know?

- 80% of the world population live in the emerging markets.
- Household names Samsung and Hyundai are among the leading companies in their respective industries, and are based in the emerging markets.
- Even in developed markets, large global companies such as Microsoft and Apple have significant business operations based in emerging markets.

## Legg Mason Emerging Market Trust as at 30 June 2011

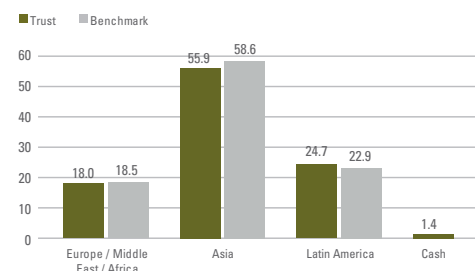
### Fund size

\$A182 million

### Performance (% before fees p.a.)

	1 yr	2 yr	3 yr	5 yr	10 yr
Fund	-1.15	7.56	-2.09	2.95	8.32
Benchmark	0.83	9.02	0.49	3.57	7.87

### Where is the Fund invested?



### Emerging Markets vs developed markets

Value of \$100 over 5 years



\* Past performance is no indication of future performance. Source: Legg Mason



## Why allocate to emerging markets?

### 1. Economic growth forecasts are higher

The emerging markets include some of the fastest growing economies in the world. China and India, two emerging-market powerhouses, have been identified by the IMF as the key contributors to world economic growth. What makes emerging markets different to developed markets like the U.S. and Australia is their high production potential with flexible labour markets, as well as the consumer demand potential from an increasingly wealthy middle class.

### 2. Higher performance potential

An allocation to emerging markets (as part of an international equities portfolio) can potentially increase returns. Emerging markets have a higher risk and return profile compared to 'developed' markets, as shown in the page one chart.

### 3. Structural improvements

Most emerging market countries are now considered structurally and fundamentally sound. Many companies have increased the level of discipline in their corporate governance and capital allocation, with a stronger emphasis on maximising shareholder returns.

### 4. Diversification benefits

Through the business cycle, there are times when the equity performance of emerging markets can deviate significantly from developed markets. Given the potential for periods of low correlations, portfolios can benefit from the inclusion of a dedicated allocation to emerging markets.

## Who are Legg Mason and Esemplia?

Esemplia Emerging Markets (Esemplia) is an affiliate firm within Legg Mason, Inc., one of the largest fund managers in the world with US\$663 billion under management as at June 2011.

Esemplia is a dedicated emerging market equities asset manager with a track record spanning almost 20 years. Esemplia has been appointed as the fund

manager for the Legg Mason Emerging Market Trust.

Esemplia's well-resourced investment team includes specialist industry analysts (many from emerging markets themselves) organised along global sector lines, as well as dedicated country strategists. The team focuses on the most attractive companies across the entire emerging market universe.

## STOCK STORIES

### Samsung Electronics

Headquartered in Korea and one of the world's largest electronics producers. A global market leader offering over 60 products, including TV's, DVD's, mobile devices and cameras.

#### Why we like it

- The company has adopted long term attractive strategic positioning across all business lines which we believe will result in increased operational efficiency
- Samsung Electronics enjoys a dominant market share and has employed an aggressive pricing policy across all product lines.
- The company offers attractive valuation support.

\* This information is provided for illustrative purposes only and does not constitute a recommendation of any particular securities. Our views are subject to change without notice.

## Top 10 Holdings

	%
VALE – Brazilian Mining	3.6
Samsung Electronics – Korean electronics	3.5
Itau Unibanco Holding – Brazilian financials	3.3
Shinhan Financial- South Korean financials	2.9
Gazprom – Russian energy	2.6
America Movil – Mexican Telco	2.1
China Construction Bank – chinese financials	2.1
CNOOC – Chinese energy	2.1
Hon Hai Precision – Taiwanese IT	2.1
Ind. & Comm. Bank of China	2.0

## Further information

Please contact visit [www.leggmason.com.au](http://www.leggmason.com.au) or contact your Business Development Manager.

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